# IDAHO OUTLOOK

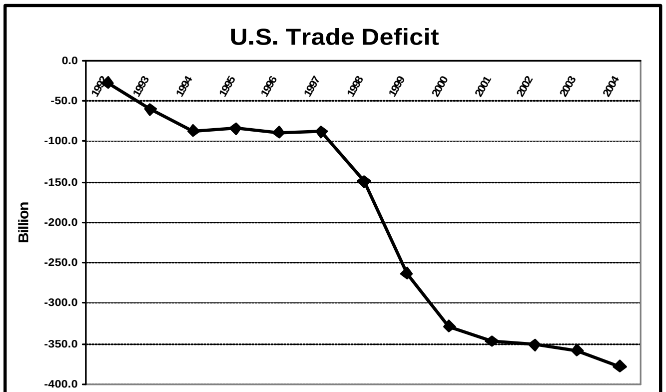
## NEWS OF IDAHO'S ECONOMY AND BUDGET

**STATE OF IDAHO** | **DIVISION OF FINANCIAL MANAGEMENT** | **NOVEMBER 1999 VOLUME XX NO. 5**

**Anchors Aweigh**? Trade is the most notable black mark on the nation's near-perfect economic report card. The U.S. trade deficit hit $23.5 billion annually in August 1999 and $24.4 billion in September 1999. To put this in perspective, the trade deficit for all of 1992 was just $27.8 billion. It is expected to rise to a whopping $263.4 billion for 1999. Trade was not always this much of a drag on the economy. Indeed, while it was half of the notorious twin deficits (the other being the federal budget) in the mid-1980s, the dollar's subsequent fall against foreign currencies improved the U.S. trade balance. In fact, net exports (exports less trade) were actually an engine of economic growth. Unfortunately, the trade deficit ballooned after the early 1990s growing to $149.6 billion by 1998. Unlike the mid-1980s when the strong dollar hampered trade, the current deficit is a reflection of the U.S. economy's strength. Ironically, this strength has erased the federal budget deficit. The federal budget posted back-to-back surpluses in fiscal years 1998 and 1999, a feat last accomplished when Dwight D. Eisenhower sat in the Oval Office. While no one expects the trade deficit to disappear, most hold some hope that it will improve. The key to improvement will be the performance of our trade partners. The projected real gross domestic product (GDP) for different regions is reported in the accompanying table. The table shows the gap between U.S. and rest-of-world growth gradually converging. A few points from the table are worth mentioning. Asia's economic powerhouse, Japan, is expected to remain weak through 2000. China will see its economic growth slow. This is worrisome, because Chinese policymakers could try to speed up growth by devaluing its currency, which could trigger another currency collapse in Asia. The smaller Asian economies should return to positive economic growth in 1999. The entire world realizes that Asia has incredible economic potential despite its recent setbacks. Thus, those hoping to be players in this vibrant region will have to market aggressively in order to distinguish themselves from a crowd of competitors. This is already taking place. For example, Idaho's Governor Dirk Kempthorne hosted a contingent of private business people and public officials on a trade mission to Asia in September. They visited Taiwan, China, South Korea, and Japan to establish and strengthen business relationships. The Governor then led a trade mission to Mexico and Costa Rica in October. South America, with the exception of Mexico, is forecast to stumble next year. Western Europe and Canada should enjoy healthy growth. Under these conditions, the U.S. trade deficit is not expected to shrink, but it should grow much slower than it has in the recent past.

| ***Projected Growth Rates of Real GDP (%)*** | ***1998*** | ***1999*** | ***2000*** |
|---|---|---|---|
| United States | 4.3 | 3.9 | 3.4 |
| Canada | 3.1 | 3.5 | 2.8 |
| Japan | (2.9) | 0.7 | 0.3 |
| W. European Big 4 [(a)] | 2.2 | 1.6 | 2.5 |
| Mexico | 4.8 | 3.2 | 3.8 |
| S. America 7 [(b)] | 1.2 | (1.8) | 2.4 |
| China | 7.8 | 6.0 | 6.2 |
| Middle-Income Asia [(c)] | (5.1) | 5.2 | 4.7 |

a. France, Germany, Italy, UK
b. Argentina, Brazil, Chile, Columbia, Ecuador, Peru, Venezuela
c. Indonesia, Korea, Malaysia, Philippines, Taiwan, Thailand
Source: Standard & Poor's DRI



Source: Standard & Poor's DRI

**NIPA, Ver. 12.01.** In October, the U.S. Department of Commerce released revised estimates of its National Income and Product Accounts (NIPA). The NIPA contains important data used to gauge the economy's health. For example, it is in NIPA where the U.S. GDP estimates are reported. Admittedly, revised economic data generate less excitement as the release of new telephone directories. However, this year's revision is different. First, it is a comprehensive revision. This means not only were data updated, but their definitions were changed. Second, this year's revisions paint a different view of how the economy has been performing. Two changes are especially worth noting. In the past, business software purchases were treated as inputs and not as final goods. As such, these sales were never counted in GDP. Given the importance of software to businesses, this seems like a gross oversight. The new NIPA corrects this by including business software purchases as an investment, which is included in the GDP tally. It has been estimated that this would add $95 billion to GDP in 1996. Changes to treatment of government software purchases would add another $20 billion. Together they would have raised GDP about 1.5% in 1996. The other big change will affect personal savings. This measure has received attention lately as the savings rate turned negative. However, this measure did not include savings in the form of government pensions. Instead, these nest eggs were classified as government savings. Under the new system, these pensions will be included in personal savings. Although this will not change GDP, it will raise the level of the personal savings in each year.

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# General Fund Update

As of October 31, 1999

| | $ Millions | | |
|---|---|---|---|
| **Revenue Source** | FY00 Executive Estimate[3] | DFM Predicted to Date | Actual Accrued to Date |
| Individual Income Tax | 878.5 | 241.0 | 250.1 |
| Corporate Income Tax | 92.5 | 25.2 | 32.2 |
| Sales Tax | 611.8 | 214.9 | 219.9 |
| Product Taxes[1] | 15.5 | 5.4 | 5.6 |
| Miscellaneous | 84.6 | 23.5 | 26.5 |
| **TOTAL GENERAL FUND**[2] | **1,682.8** | **510.0** | **534.3** |

*1 Product Taxes include beer, wine, liquor, and cigarette taxes*
*2 May not total due to rounding*
*3 Revised Estimate as of August 1999*

General Fund revenue collections continued to exceed their targets in October, but by a smaller margin than the past two months. All categories except Sales Tax were ahead of the predicted amount for the month, led by the Individual Income Tax at $5.0 million. Overall, October General Fund revenue was $5.7 million higher than expected, and year-to-date revenues are $24.3 million higher than predicted.

The Individual Income Tax was $5.0 million greater than the projected amount in October. This was due to a combination of higher-than-expected filing and withholding collections, and lower-than-expected refund payments. Withholding collections were the strongest component in October, with $3.0 million more than the forecasted amount. Filing collections were also quite strong at $1.5 million above the target, and refunds were $0.4 million lower than anticipated.

Corporate Income Tax collections were the second strongest revenue category with a modest $1.0 million excess. Filing collections were $0.2 million lower than expected and quarterly estimated payments were exactly on target in October. October's strength was due to refund payments that were $1.2 million less than expected.

Sales Tax collections were $0.7 million below expectations in October. This is the first time the sales tax has come in lower than expected this fiscal year. Recent slowing of Idaho job growth and rising mortgage rates suggest there may be more weakness ahead.

Product Tax revenue was slightly ($0.1 million) ahead of the predicted amount for October, and Miscellaneous revenues were ahead by $0.3 million. October's Miscellaneous category strength was due to the receipt of a relatively large Division of Environmental Quality fine.